

Message Text

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PAGE 01 ABIDJA 10894 01 OF 02 081513Z

ACTION EB-08

INFO OCT-01 AF-10 ISO-00 L-03 IO-13 NSC-05 SS-15

AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01

AGRE-00 OES-07 HA-05 /101 W

-----001585 081641Z /47

R 081420Z NOV 77

FM AMEMBASSY ABIDJAN

TO DEPT OF TREASURY WASHDC

INFO SECSTATE WASHDC 6104

AMEMBASSY CONAKRY

LIMITED OFFICIAL USE SECTION 1 OF 2 ABIDJAN 10894

DEPT PASS NAC AGENCIES

E.O. 11652: N/A

TAGS: AFDF, AFDB, EFIN, EAID

SUBJECT: PROPOSED AFDF LOAN TO FINANCE GUINEA KENAF PRODUCTION
PROJECT

SUMMARY: AFRICAN DEVELOPMENT FUND (AFDF) MANAGEMENT
PROPOSES 5

MILLION FUND UNIT OF ACCOUNT (IMA EQUAL TO US \$1.11) LOAN TO GOVERN-
MENT OF THE REPUBLIC OF GUINEA TO FINANCE A PORTION OF PROJECT COM-
PRISING TWO MAJOR COMPONENTS A) AGRICULTURAL COMPONENT FOR THE
DEVELOP-
MENT OF KENAF FIBER AND B) FACTORY COMPONENT FOR PROCESSING OF FIBER
INTO SACKS. AFDF LOAN TO FINANCE PORTION OF AGRICULTURAL COMPONENT.
TOTAL COST OF AGRICULTURAL COMPONENT EQUAL TO 9 MILLION FUA TO BE CO-
FINANCED WITH GOG AND FARMER ORGANIZATIONS. FACTORY COMPONENT
EQUAL TO 10.3 MILLION FUA TO BE FINANCED BY NIGERIAN TRUST FUND
(6.5 MILLION FUA) AND GOG (3.8 MILLION FUA). ANTICIPATE PROBLEMS IN
PROJECT EXECUTION. REQUEST NAC GUIDANCE. END SUMMARY.

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PAGE 02 ABIDJA 10894 01 OF 02 081513Z

1. AFDF DOCUMENT BD/77/74 AND ATTACHMENTS DESCRIBING LOAN POUCHED
TO ADDRESSEES NOV 3. BOARD CONSIDERATION SCHEDULED FOR NOV
23, 1977.

2. AFDF MANAGEMENT PROPOSES 5 MILLION FUA LOAN TO GOG TO FINANCE
55 PER CENT OF FINANCING COST OF DEVELOPMENT OF 5,500 HA OF
KENAF BY "WORKERS BRIGADES" AND INDIVIDUAL SMALL FARMERS.

THIS IS PART OF LARGER PROJECT WHICH ALSO INCLUDES CONSTRUCTION OF A SACK FACTORY. PROJECT DESIGNED TO ELIMINATE DEPENDENCE ON IMPORTED SACKS USED FOR BAGGING AGRICULTURAL COMMODITIES FOR LOCAL CONSUMPTION OR STORAGE, OR FOR EXPORT. AFDF FINANCED AGRICULTURAL COMPONENT INCLUDES A) ESTABLISHMENT OF PROJECT HEADQUARTERS AT KOUROUSSA TO INCLUDE OFFICES AND STAFF HOUSING, B) ESTABLISHMENT OF A SEED FARM, C) ESTABLISHMENT OF A RESEARCH STATION COMPRISED OF AN OFFICE/LABRATORY, STAFF HOUSING, A CLASSROOM, AND EQUIPMENT, D) PROCUREMENT OF AGRICULTURAL EQUIPMENT AND TRANSPORT EQUIPMENT, E) LAND CLEARING AND DEVELOPMENT OF 5,500 HA OF KENAF, F) PROVISION OF AGRICULTURAL INPUTS, G) PROVISION OF EXTENSION STAFF, H) PROVISION OF TECHNICAL ASSISTANCE. AFDF FINANCING TO BE ALL IN FOREX. GOG TO MEET REMAINDER OF FOREX COSTS OF AGRICULTURAL COMPONENT EQUAL TO APPROXIMATELY 1 MILLION FUA AND PORTION OF LOCAL COSTS EQUAL TO 1.7 MILLION ND A. FARMERS BRIGADES TO MEET LOCAL COSTS EQUAL TO 1.7 MILLION FUA. FARMERS BRIGADES TO MEET LOCAL COSTS EQUAL TO 1.2 MILLION FUA. AFDF LOAN TO BE DISBURSED OVER SIX YEAR PERIOD. PROCUREMENT TO BE IN ACCORDANCE WITH STANDARD AFDF PROCEDURES. PROPOSED TERMS 50 YEARS AMORTIZATION, INCLUDING TEN YEARS GRACE, 0.75 PER CENT SERVICE CHARGE. GOVERNMENT OF REPUBLIC OF GUINEA TO BE BORROWER, PROJECT MANAGEMENT AUTHORITY, TO BE ESTABLISHED UNDER AUSPICES OF MINISTRY OF INDUSTRY AND POWER, WILL ASSUME EXECUTING RESPONSIBILITY.

3. ONE OF THE NUMEROUS PROBLEMS AFFECTING GUINEAS AGRICULTURAL LIMITED OFFICIAL USE

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PAGE 03 ABIDJA 10894 01 OF 02 081513Z

INDUSTRY IS A SERIOUS LACK OF BAGGING MATERIAL TO FACILITATE THE EVACUATION OF AGRICULTURAL COMMODITIES FROM RURAL AREAS TO MARKETS. THE APPRAISAL REPORT INDICATES THAT OFTEN SURPLUS FOOD SUPPLIES IN ONE REGION CANNOT REACH OTHER REGIONS DUE TO FARMERS INABILITY TO TRANSPORT THE PRODUCE BECAUSE OF A LACK OF SACKS. AGRICULTURAL PRODUCTION DESTINED FOR EXPORT MUST AWAIT THE ARRIVAL OF A BUYER WHO CAN PROVIDE HIS OWN BAGGING MATERIAL. GUINEA HAS BEEN UNABLE TO IMPORT A SUFFICIENT NUMBER OF SACKS BECAUSE OF FOREIGN EXCHANGE CONSTRAINTS. ANNUAL IMPORTS HAVE VARIED WIDELY AVERAGING FROM BETWEEN ONE AND 2.5 MILLION SACKS ANNUALLY, WHILE DEMAND HAS REMAINED IN EXCESS OF THREE MILLION. IN 1972 IMPORTS FELL TO A LEVEL OF 200 THOUSAND WITH DEMAND REMAINING CONSTANT.

4. AGRICULTURAL SECTOR: THE APPRAISAL REPORT INDICATES THAT INFORMATION ON AGRICULTURAL PRODUCTION IN GUINEA IS DIFFICULT TO OBTAIN BECAUSE IN MANY CASES IT HAS NOT BEEN COMPILED AND WHEN AVAILABLE, IT IS LARGELY UNRELIABLE. A BASIC PROBLEM IN THE RURAL SECTORS APPEARS TO BE LACK OF PRODUCER INCENTIVES AND

ARTIFICIALLY LOW GOVERNMENT-ENFORCED PRICING SCHEMES. GOVERNMENT POLICIES HAVE LED TO THE DEVELOPMENT OF A BLACK MARKET IN ALMOST

ALL COMMODITIES AS WELL AS SMUGGLING OF FARM PRODUCE TO NEIGH-
BORING COUNTRIES IN EXCHANGE FOR CONSUMER GOODS WHICH IN TURN
ARE SOLD ON THE GUINEAN BLACK MARKET. THE REPORT INDICATES
THAT REMOVAL OF GOVERNMENT CONTROLS WOULD IMPROVE THE PERFORMANCE
OF THE SECTOR, BUT NOT DRAMATICALLY SINCE THE PRICE ISSUE
ONLY
MASKS A BROAD RANGE OF OTHER CONSTRAINTS RANGING FROM POOR
TRANSPORTATION, LACK OF FOREIGN EXCHANGE, AND DEFECTS IN THE
INSTITUTIONAL SYSTEM SERVING THE SECTOR, ESPECIALLY RESEARCH,
EXTENSION, INPUT SUPPLY, CREDIT AND MARKETING. MANAGEMENT FEELS
THAT IN LIGHT OF THE BROAD RANGE OF PROBLEMS FACING THE SECTOR
A PRAC-
TICAL APPROACH IS TO ALLEVIATE SPECIFIC PROBLEMS RATHER
THAN ATTEMPTING TO EMBARK ON A BROAD PROGRAM OF REFORM WHICH IS
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PAGE 04 ABIDJA 10894 01 OF 02 081513Z

CLEARLY BEYOND THE REACH
OF AFDF RESOURCES. IN THIS CONTEXT,
MANAGEMENT HAS RECOMMENDED APPROVAL OF THE PROPOSED PROJECT.

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PAGE 01 ABIDJA 10894 02 OF 02 081604Z
ACTION EB-08

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USIA-06 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
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R 081420Z NOV 77
FM AMEMBASSY ABIDJAN
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LIMITED OFFICIAL USE SECTION 2 OF 2 ABIDJAN 10894

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5. THE GOVERNMENT OF GUINEA EMBARKED ON A FIVE YEAR AGRICULTURAL

PLAN (1973-78) AIMED AT INCREASING PRODUCTION BY 5-7 PER CENT PER ANNUM. ACCORDING TO THE DEVELOPMENT PLAN DOCUMENT ITSELF, PRODUCTION FIGURES CITED ARE UNRELIABLE. FIGURES ARE GIVEN FOR 1973 AND PROJECTIONS ARE MADE THROUGH 1978, BUT ACTUAL FIGURES FOR 1974, 1975, AND 1976 DO NOT EXIST. THE MAIN STRATEGY OF THE PLAN ENTAILS ORGANIZATION OF THE RURAL POPULATION INTO "WORKERS BRIGADES." FARMERS DIVIDE THEIR TIME BETWEEN WORKING THEIR OWN LAND, AND WORKING THE COMMUNAL PLOT ASSIGNED TO AN INDIVIDUAL BRIGADE. A BRIGADE MAY CONTAIN AS MANY AS 1,500 PEOPLE EACH OF WHOM DEVOTES ABOUT ONE DAY PER WEEK TO CULTIVATING THE COMMUNAL LAND. BENEFITS EARNED BY THE BRIGADES ARE NOT PAID TO THE INDIVIDUAL FARMER, BUT RATHER ARE APPLIED TO DEVELOPMENT OF HEALTH CARE CENTERS, SCHOOLS, WATER SUPPLY, ETC.

6. THE AGRICULTURAL COMPONENT OF THE PROPOSED PROJECT WILL BE DEVELOPED AND OPERATED UNDER THE WORKER BRIGADE CONCEPT. EIGHTY BRIGADES TOTALING 13 THOUSAND PEOPLE WILL BE ORGANIZED TO CUL-

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PAGE 02 ABIDJA 10894 02 OF 02 081604Z

TIVATE A 5,500 HA AREA. MOTORIZED BRIGADES WOULD BE EQUIPPED WITH A TRACTOR AND IMPLEMENTS AND WOULD CULTIVATE 70 HA ANNUALLY

NON-MOTORIZED BRIGADES WOULD BE EQUIPPED WITH FOUR PAIR OF OXEN AND NECESSARY EQUIPMENT TO CULTIVATE 20 HA ANNUALLY. EQUIPMENT AND INPUTS WOULD BE SUPPLIED TO BRIGADES UNDER GOVERNMENT CREDIT SCHEMES. LAND USE WILL BE ROTATED EVERY TWO YEARS UNDER THE PROPOSED PROJECT SO THAT ONE THIRD WILL BE DEVOTED TO KENAF, ONE THIRD TO SUBSISTENCE CROPS, AND ONE THIRD FALLOW. CREDIT WILL NOT BE EXTENDED FOR PRODUCTION OF SUBSISTENCE CROPS. HOWEVER, RESIDUAL FERTILIZER LEFT IN THE SOIL FROM THE KENAF CYCLE IS EXPECTED TO BENEFIT SUBSISTENCE FARMING. SEED WILL INITIALLY BE IMPORTED FROM MALI UNTIL THE SEED FARM IS IN OPERATION. OPERATING COSTS OF PROJECT HEADQUARTERS, EXTENSION SERVICE, VEHICLE OPERATION, RESEARCH/SEED FARM ARE CONSIDERED PROJECT COSTS THROUGH YEAR SIX.

7. FIBER YIELDS ARE EXPECTED TO BE 850 KG/HA IN THE SIXTH YEAR. KENAF FIBER YIELDS IN NEIGHBORING MALI AVERAGE 1,000 KG/HA AND PROJECT YIELDS ARE EXPECTED TO EVENTUALLY SURPASS MALI'S YIELD SINCE THE PROJECT AREA HAS BETTER ENVIRONMENTAL CONDITIONS THAN ARE FOUND IN MALI. AT FULL DEVELOPMENT PROJECT EXPECTED TO YIELD 4,500 TONS OF DRY KENAF FIBER ANNUALLY. THIS IS EXPECTED TO PROVIDE 65 PER CENT OF TOTAL FIBER REQUIREMENTS FOR THE FACTORY'S PRODUCTION OF 4.3 MILLION SACKS PER ANNUM.

8. THE ONLY INCREMENTAL CROP PRODUCTION RESULTING FROM THE PROJECT IS THAT RELATING TO KENAF. THE APPRAISAL REPORT INDICATES THAT BRIGADE LABOR IS VOLUNTARY AND FREE. FARMERS WOULD CONTINUE

TO PRODUCE SUBSISTENCE CROPS INDEPENDENT OF THE PROJECT. THE
MAJOR BENEFIT TO FARMERS WOULD ACCRUE THROUGH BRIGADE PROFITS
BEING APPLIED TO SOCIAL SERVICES PROVIDED IN RURAL AREAS.
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PAGE 03 ABIDJA 10894 02 OF 02 081604Z

9. SINCE COMMERCIAL KENAF PRODUCTION DOES NOT PRESENTLY EXIST
IN GUINEA, THERE ARE NO MARKETING ARRANGEMENTS FOR KENAF FIBER.
THE PROJECT MANAGEMENT AUTHORITY WILL HAVE SOLE RESPONSIBILITY
FOR PROCUREMENT OF FIBER FROM PROJECT. MARKETING AND DISTRIBUTION
OF SACKS IS RESPONSIBILITY OF IMPORTEX, A GOVERNMENT ORGANIZATION
WITH THE MONOPOLY ON IMPORT, EXPORT, AND DISTRIBUTION OF A RANGE OF
COMMODITIES. DUE TO CURRENT SHORTAGES, DISTRIBUTION OF SACKS
IS RATIONED AND CONTROLLED BY THE GOVERNMENT. IMPORTEX WILL
DISTRIBUTE PROJECT PRODUCED SACKS ACCORDING TO GOVERNMENT
DESIGN. IT IS ANTICIPATED THAT A COMMERCIAL DISTRIBUTION
SYSTEM WILL EMERGE AS SHORTAGES ARE ALLEVIATED. ENTIRE PROJECT
EXPECTED TO BE FINANCIALLY SELF SUPPORTING FROM YEAR SIX
THROUGH END OF PROJECT LIFE YEAR TWENTY. GOVERNMENT GUARANTEES
FOREIGN EXCHANGE WILL BE MADE AVAILABLE FOR REPLACEMENT AND INPUTS.

10. BENEFITS FROM PROJECT TO INCLUDE ADDITIONAL SOCIAL SERVICE
PROVIDED TO RURAL POPULATION FROM BRIGADES NET INCOME. PROJECT
TO EMPLOY ABOUT 600 DIRECT EMPLOYEES IN BOTH FIELD AND FACTORY.
FOREIGN EXCHANGE SAVINGS ON SACK IMPORTS TO AVERAGE U.S. \$500
THOUSAND PER YEAR. INTERNAL RATE OF RETURN ESTIMATED AT 17
PER CENT. IF PROJECT BENEFITS REDUCED BY 20 PERCENT, RATE DROPS
TO 13 PERCENT.

11. PROJECT MANAGEMENT: CREATION OF PROJECT MANAGEMENT
AUTHORITY IS CONDITION FOR DISBURSEMENT. PROJECT MANAGER TO
BE APPOINTED BY MINISTER FOR INDUSTRY AND POWER. PROJECT TO
BE COORDINATED BY COMMITTEE HAVING REPRESENTATION OF EIGHT
MINISTERIES. COORDINATION COMMITTEE TO INSURE GOVERNMENT'S
EXPEDITIOUS COOPERATION WHERE REQUIRED. PROJECT MANAGER TO
BE ASSISTED BY EXPATRIATE PERSONNEL TO INCLUDE TWO EXTENSION
EXPERTS, ONE RESEARCH OFFICER, ONE FACTORY PRODUCTION MANAGER
AND ONE MAINTENANCE ENGINEER. EXTENSION STAFF TO INCLUDE 140
INDIVIDUALS. POPULATION IN PROPOSED PROJECT AREA IN 1973
ESTIMATED AT 132 THOUSAND WITH DENSITY OF APPROXIMATELY 8.6
PER SQ KM. APPRAISAL REPORT INDICATES THAT ALTHOUGH POPULATION
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PAGE 04 ABIDJA 10894 02 OF 02 081604Z

DENSITY IS LOW, IT WILL NOT BE DIFFICULT TO RECRUIT 13,000
FARMERS TO IMPLEMENT PROJECT, FOR IF NEED ARISES, FARMERS FROM
NEIGHBORING REGIONS COULD BE RECRUITED. "OBJECTIVES OF (GOVERN-

MENT'S WORKER BRIGADE) POLICY ARE WELL PUBLICIZED AND THE RURAL POPULATION IS VERY WELL AWARE OF WHAT IS EXPECTED OF THEM; INDEED IT HAS BEEN ACCEPTED AS THE VERY CORE OF ANY SOCIAL, POLITICAL AND ECONOMIC ACTIVITY AT ALL LEVELS."

12. COMMENT: PROJECT APPEARS TO ENTAIL COMPLEX MANAGERIAL AND ORGANIZATIONAL CONCEPTS WHICH MAY BE IMPOSSIBLE TO IMPLEMENT WITHOUT COMBINATION OF ADEQUATE INSTITUTIONAL EXPERTISE AND INDIVIDUAL INCENTIVE. APPROAISAL REPORT IS UNABLE TO EVALUATE GOVERNMENT'S AGRICULTURAL DEVELOPMENT METHODS DUE TO NON-AVAILABILITY OF STATISTICAL DATA. WE ARE ALSO CONCERNED BY HUMAN RIGHTS IMPLICATIONS INHERENT IN WORKER BRIGADE CONCEPT. EXPERIENCED EXECUTING AGENCY APPARENTLY DOES NOT EXIST. IN VIEW OF PERCEIVED WEAKNESS IN MANAGERIAL CONCEPT AND ANTICIPATED PROBLEMS IN PROJECT EXECUTION, REQUEST NAC GUIDANCE.
STEARNS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGRICULTURAL PRODUCTION, LOANS, DEVELOPMENT LOANS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ABIDJA10894
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770412-0545
Format: TEL
From: ABIDJAN
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19771186/aaaacvoq.tel
Line Count: 295
Litigation Code IDs:
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Litigation History:
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Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 683505
Secure: OPEN
Status: NATIVE
Subject: PROPOSED AFDF LOAN TO FINANCE GUINEA KENAF PRODUCTION PROJECT SUMMARY: AFRICAN DEVELOPMENT FUND (AFDF) MANAGEMENT
TAGS: EFIN, EAID, AFDB, AFDF
To: TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5243d51f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009